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DBRS Confirms Deutsche Bank's A (low) Rating, Trend Still Negative

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings GmbH (DBRS) confirmed the ratings of Deutsche Bank (DB or the Bank), including its Long-Term Issuer Rating of A (low) and Short-Term Issuer Rating of R-1 (low). The Trend on all long-term ratings remains Negative. The Intrinsic Assessment (IA) for the Bank is A (low), while its Support Assessment remains SA3.

KEY RATING CONSIDERATIONS

In confirming DB's ratings, DBRS considered Deutsche Bank's significant global franchise, including the strong position within Germany, which is being enhanced by the integration of Postbank. DBRS also notes the Bank's strong balance sheet fundamentals and well managed credit and market risk. This is mitigated by significant headwinds, including declining investment banking market share and continued low levels of profitability, as well as DB's need to demonstrate strengthened internal controls and processes.

The Negative trend takes into account the challenges the Bank faces in growing revenues and recovering lost market share amid a difficult operating environment. The Bank also needs to absorb still sizable restructuring costs and make continuing investments in systems and process enhancements, while balancing the need to compensate its employees in order to retain top talent. The Negative trend also reflects concerns about management stability and cohesiveness following multiple high-level departures.

More recently, the Bank announced official merger talks with Commerzbank. Given the difficult revenue environment, the rationale for a merger could be compelling from a cost savings perspective. Another benefit in DBRS's view would be a further reduction in the more volatile investment banking revenues as a proportion of total revenues. However, given that DB is still in the process of implementing numerous strategic initiatives, including the integration of Postbank, DBRS considers execution risks to be elevated. Also, costs related to a merger would likely be front-loaded, whereas cost savings would only materialise over time.

RATING DRIVERS

Downward pressure on the ratings could arise, if the Bank is unable to make further progress with its strategic plan and the improvement of its systems and technology, or, if the loss of market share has a

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material adverse impact on its franchise and business momentum. Additional rating pressure could arise from a major business transformation, including a merger, if this negatively impacts DB's financial profile, or jeopardises the progress under the current strategy.

The trend could revert back to Stable if the Bank is successful in increasing profitability while maintaining a solid risk profile. Additionally, demonstrating an ability to maintain and/or improve market share in key strategic areas would be supportive of the current rating level.

RATING RATIONALE

Deutsche Bank has a well-established global franchise across diverse products and geographies. A significant part of revenues come from businesses that provide generally stable and resilient revenues streams, including retail and commercial banking, asset management, and transaction banking. DBRS notes some loss of market share within the Corporate & Investment Bank (CIB), as DB is facing the challenge of balancing the need to reduce expenses and improve profitability against the need to invest in the franchise.

Management stability and cohesiveness is an important rating factor. DBRS has noted concerns about repeated management changes and the manner in which they were carried out. While DBRS views current management as demonstrating an ability to execute on its plans, more time is required to determine a successful track record.

DBRS's views the Bank's profitability as challenged. In 2018, DB reported its first net profit (EUR 341 million) since 2014, as progress in reducing the Bank's high cost base has begun to materialise, but headwinds to revenues remain significant. Net revenues in 2018 were 4% down YoY with declines across most segments, particularly in CIB and Asset Management (AM). CIB revenues were impacted by the Bank's strategic repositioning, while in AM revenues were affected by negative net flows, lower performance fees and the impact from discontinued operations. In Private & Commercial Bank (PCB) revenues were down only marginally, as margin pressure was mitigated by increased business volume. Looking ahead, the CIB restructuring is now largely complete, and the Bank appears to be positioned for growth. However, DBRS notes that many factors driving revenues are out of DB's control, including financial market conditions and the potential for an economic slowdown.

Cost control has been a key focus for Deutsche Bank. Despite a decline in expenses of 5% YoY, the efficiency ratio remained a high 93% in 2018 due to the drop in revenues. Adjusted costs were EUR 22.8 billion in 2018, meeting the Bank's target. For 2019, the Bank expects a further reduction to EUR 21.8 billion. This will also be supported by the further headcount reduction, retail merger

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synergies and the realisation of disposals made in 2018.

DB maintains a strong credit risk profile and manages its market risk well, though operational risk issues persist. Given prior conduct-related issues, DBRS will look for a further track record of improved operational risk controls, but recognises the significant progress made in advancing systems and technology to prevent these types of issues from recurring.

DB benefits from a funding and liquidity profile that has proven to be resilient. The Bank has a substantial customer deposit base of EUR 564 billion at end-2018, contributing 56% of total funding. The wholesale funding profile is diversified, and short-term maturities are backed by significant amounts of liquidity. DB's liquidity coverage (LCR) ratio was 145% at the end of 2018. The Bank also calculates a stressed net liquidity position (SNLP) that represents the surplus of its liquidity reserves and other inflows in excess of stressed liquidity demand under five stress scenarios. As of FY18, DB reported a SNLP of EUR 48.1 billion.

DBRS sees the Bank's strong risk-adjusted regulatory capital position, with a fully-loaded CET1 ratio of 13.6% as supportive of the rating. DB's CET1 ratio is at the upper end of the global peer group and provides DB with a buffer to allocate capital to businesses where it intends to grow. DB's fully loaded leverage ratio was 4.1% at year-end 2018, at the low end of the global peer group.

The Grid Summary Scores for DB are as follows: Franchise Strength – Good; Earnings Power – Good/Moderate; Risk Profile – Strong/Good; Funding & Liquidity –Strong; Capitalisation – Good/Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2018). This can be found can be found at:
<http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company documents, Coalition, Dealogic and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve-month period. DBRS's outlooks and ratings are under regular surveillance

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Initial Rating Date: 27 February 2015
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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Deutsche Bank AG	Long-Term Issuer Rating	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank AG	Long-Term Senior Debt	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank AG	Long-Term Deposits	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank AG	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	Mar 29, 2019
Deutsche Bank AG	Short-Term Debt	Confirmed	R-1 (low)	Stb	Mar 29, 2019
Deutsche Bank AG	Short-Term Deposits	Confirmed	R-1 (low)	Stb	Mar 29, 2019
Deutsche Bank AG	Senior Non-Preferred Debt	Confirmed	BBB (high)	Neg	Mar 29, 2019
Deutsche Bank AG	Long Term Critical Obligations Rating	Confirmed	A (high)	Neg	Mar 29, 2019

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Deutsche Bank AG	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Neg	Mar 29, 2019
Deutsche Bank Trust Company Americas	Long-Term Issuer Rating	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank Trust Company Americas	Long-Term Senior Debt	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank Trust Company Americas	Long-Term Deposits	Confirmed	A (low)	Neg	Mar 29, 2019
Deutsche Bank Trust Company Americas	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	Mar 29, 2019
Deutsche Bank Trust Company Americas	Short-Term Debt	Confirmed	R-1 (low)	Stb	Mar 29, 2019
Deutsche Bank Trust Company Americas	Short-Term Deposits	Confirmed	R-1 (low)	Stb	Mar 29, 2019

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